

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

DOCKET NO. R97-1


**ERRATA OF UNITED PARCEL SERVICE
TO DIRECT TESTIMONY OF STEPHEN E. SELICK
(UPS-T-2)**

(January 14, 1998)

In their testimony, UPS witnesses Stephen E. Sellick (UPS-T-2) and Ralph L. Luciani (UPS-T-4) state that in calculating the proposed DBMC discount, Postal Service witness Crum failed to make a premium pay adjustment, thereby overstating the estimated DBMC entry avoided costs. See, e.g., UPS-T-2 at 20 and UPS-T-4 at 6. However, it has since been discovered that the Postal Service did in fact make a premium pay adjustment. Accordingly, UPS withdraws that portion of the testimony of witnesses Sellick and Luciani which (1) states that a premium pay adjustment was not made and (2) goes on to make what has turned out to be a duplicate adjustment.

A list of the resulting changes to Mr. Sellick's testimony is provided below, and revised pages of the affected testimony are also attached. A revision to Mr. Luciani's testimony and the affected exhibits is being filed separately.

Respectfully submitted,


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| <u>Page</u> | <u>Line(s)</u> | <u>Reads</u> | <u>Change</u> |
|-------------|----------------|--|------------------------|
| 20 | 3-5 | Also, a premium pay adjustment has traditionally been made by the Commission, but is not made by Mr. Crum. | Delete entire sentence |
| 21, Table 6 | 9 | \$885 | Delete |

1 Preparation (Operation Code 01) and Platform Acceptance (Operation Code 07) in
2 calculating the costs avoided by DBMC Parcel Post. Mr. Crum, on the other hand,
3 treats these costs as part of the costs avoided by DBMC Parcel Post. In his
4 testimony, Mr. Luciani recommends that the Commission's methodology should be
5 adopted in this case.

6 In response to an interrogatory asking why he did not adjust his
7 avoided cost calculation to exclude mail preparation and platform acceptance
8 costs, Mr. Crum indicated that "it would not have been possible to make the
9 adjustments as such."¹⁷ However, the SAS data sets in LR-H-146 contain the data
10 needed to make these adjustments. The results are presented in Table 6. This
11 table also shows the amount of the premium pay adjustment traditionally made by
12 the Commission.

17. Tr. 5/2285.

Table 6
Parcel Post Costs Excluded from
DBMC Avoided Cost Calculation

| Summary by Office Type | Postal Service Attribution of Cost Segment 3 | 100 Percent Attribution of Cost Segment 3 |
|--|--|--|
| All Offices Operation Codes 01 and 07 | \$4,250 | \$5,867 |
| BMC Offices Excluding Operation Codes 01 and 07 | \$31,686 | \$51,187 |
| Premium Pay Adjustment | | \$1,295 |

Source: UPS-Sellick-WP-1-IV-A, page 1.

Mr. Luciani uses these calculations to arrive at a revised DBMC discount.

SUMMARY OF CONCLUSIONS

In conclusion, I find that:

- Mr. Degen's MODS-based approach to distributing attributable mail processing labor costs to subclasses is an improvement over past practice and should be adopted by the Commission. Mr. Degen's approach more closely aligns the distribution of mixed mail and overhead costs to mail processing operational characteristics and more fully utilizes Postal Service data on counted mixed mail. The result is an improved distribution of the costs in Cost Segment 3.
- MODS-based costing can be implemented while returning to the historical practice of attributing 100 percent of mail processing labor costs. Mr. Degen's MODS-based approach should be adopted by the

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document
in accordance with section 12 of the Commission's Rules of Practice.


Stephanie Richman

Dated: January 14, 1998
Philadelphia, PA